



NATIONAL BANK OF KAZAKHSTAN

PRESS RELEASE

The base rate remains unchanged at 16,75%

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Astana

The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan has made a decision to keep the base rate at 16,75% per annum with the interest rate corridor +/- 1 pp.

Global inflationary pressure, despite the inflation slowdown in some countries, remains elevated. In Kazakhstan, annual and monthly inflation in March showed an expected decrease. Despite the beginning of a slowdown in inflationary processes, it is too early to say about a steady and stable downward trend in inflation. Internal pro-inflationary factors persist and begin to be implemented in the form of unstable inflation expectations, increased government spending, and the beginning of implementation of overdue reforms in the fuel and lubricants, and housing and utilities market. The aggregate balance of factors continues to support the previous communication about the need to maintain the base rate at the current level during the first half of 2023 in order to reduce inflation in the medium term. Further actions on the base rate will depend on the updated forecast in May, taking into account new data, including the parameters of the reform in the fuel and lubricants, and housing and utilities market.

Inflation has started to show a slowdown and corresponds to the forecast trajectory. In March 2023, annual inflation is expected to have decreased to **18,1%** as a result of the high base of last year. At the same time, the slowdown in inflation was restrained by the growth of tariffs for regulated services in February and prices of fruit and vegetable products amid the crop losses and frosts in the southern regions, as well as an increase in the cost of transport services due to the increased demand. Monthly inflation after interruption of the decline in February 2023 (1,3% mom) in March showed a further deceleration to **0,9%**. Nevertheless, it continues to form above the historical average (0,6% in March 2017-2021).

The stable part of inflation also shows a slowdown, but still remains high, indicating the preservation of the pro-inflationary environment.

Inflation expectations accelerated again after a decline in January-February. In March, the expected inflation in a year was estimated by respondents at 16,5% (in February – 14,2%). Factors of inflationary expectations are changes in food prices, external events, changes in the exchange rate of tenge, as well as the growth of salaries and pensions.

External inflation remains high despite the slowdown. World food prices have continued to decline, but are still above the average values over the past five years. In the USA and in the EU countries, high prices for food and services continue to contribute to high consumer inflation. The rhetoric of the US Federal Reserve and the ECB, despite the problems in the banking sector, remains quite tough. Moreover, the ECB expects inflation to remain high for a long time. As a result of the problems in the banking sector of the USA and Europe, which have increased the expectation of a global recession and weaker demand for raw materials, oil prices are forming lower than the baseline scenario of \$88 per barrel on average in 2023. Nevertheless, oil prices will be supported this year by

the planned reduction in production by OPEC+ countries, weak oil production in Russia due to sanctions, as well as the further recovery of China after the opening.

Economic growth corresponds to the forecast of the National Bank of 3,5-4,5% for the year. Thus, Kazakhstan's economy grew by 4,3% in January-February 2023. Domestic demand remains stable, as evidenced by the positive dynamics of retail turnover as a result of the sale of cars, household appliances, food and clothing.

Pro-inflation risks persist and are partially beginning to be realized. Volatile inflation expectations indicate an increased pro-inflationary background in the country. The risk of a possible inflation acceleration as a result of rising prices for previously regulated goods and services remains and partially begins to be realized. Along with this, a significant revision of the republican budget expenditures and the temporary suspension of the budget rule creates uncertainty and shifts the balance of risks to the pro-inflationary side. Despite the risks of inflation due to rising prices for fuel and regulated utilities, the reforms are overdue and are designed to reduce the accumulated imbalances in the economy in the medium and long term.

Under these conditions, the National Bank continues to adhere to the position on the feasibility of maintaining the base rate at current values in the first half of 2023. This will support the beginning of a weakly pronounced slowdown in inflationary processes in the country, offset the growth of budget expenditures and prevent the anchoring of inflationary expectations at high levels.

At the next decision on the base rate, an updated forecast will be presented based on the results of the May 2023 round. During the forecast round, new incoming data will be analyzed, including the expected more complete information on the parameters of the pricing reforms of regulated services and fuels and lubricants, and their direct and indirect impact on inflation.

The next scheduled decision of the Monetary Policy Committee of the National Bank of Kazakhstan on the base rate will be announced on May 26, 2023 at 12:00 Astana time.

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